MULTIMEDIA UNIVERSITY

STUDENT ID NO

MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 3, 2022/2023

DAU5024 – AUDITING 2

(All sections/Groups)

3 OCTOBER 2023
9.00 a.m.-12.00 p.m.
(3 Hours)

INSTRUCTIONS TO STUDENT

1. This question paper consists of 9 pages excluding cover page with 4 questions only.
2. Answer **ALL** questions.
3. Please write your answers in the Answer Booklet provided.

QUESTION 1

PART A

House of Leather Berhad (HLB) is engaged in producing various leather goods, including upholstery, bags, and gloves. These products are distributed to wholesalers within Malaysia. The operational structure of the company encompasses five core departments responsible for managing the sales procedure. These departments include sales, credit, warehousing, shipping, billing, and accounting. The company uses a UBS system to record all the sales and inventories in the warehouse.

All the sales in HLB are in credit. During the previous year, HLB pinpointed weaknesses within their internal control mechanisms pertaining to the sales process. Consequently, the company encountered challenges such as an upsurge in unpaid debts and grievances regarding product deliveries from its clientele. This predicament led to a significant downturn in the company's overall profitability. In response, the company has enlisted your team's expertise as internal auditors to identify and rectify the weaknesses within their sales process. Presented below is an overview of the company's sales procedure.

Sales Department

Rosy, a trainee from the University of Excellence, works in the sales department where she handles customer orders. Rosy will fill up the sales order form in the UBS system from information that is generated from the customers' system. The system prepares multiple copies of sales orders. One copy of sales order form is sent to the credit department to investigate the creditworthiness of the client, and a copy of sales order is passed straight to the warehouse department to check the items' availability, the rest are sent to the shipping, billing and accounting department. The sales order form is pre-numbered to allow for easy and systematic tracking of orders. Each order is assigned a unique number, making it simpler to manage and follow the order process from initiation to fulfilment.

All products are available on the company's website which is updated monthly. The list of products is arranged logically, such as by category or product type, to help customers quickly find what they are looking for. The company prepares the product using headings or labels to indicate different sections or categories within the pricing list. Suzanne is in charge of managing the product on the website. She will check the item's availability and update the product's quantity, details and the price of all products on the company's website monthly. In order to attract customers, the company will make different promotions for the products every month to its customers.

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Credit Department

Upon receiving the sales order details from the sales department, Jasmine will oversee the credit evaluation process. Due to the high volume of credit applications from new and existing customers, Jasmine's focus is primarily on basic financial information and neglecting to perform in-depth assessments of customers' creditworthiness. The existing customers can extend credit limits based on the trust of the history records in the company's subsidiary account and without proper credit authorisation procedures.

Once the credit limit authorisation process is completed, the system automatically generates a picking ticket and sends a copy to the warehouse department.

Warehouse Department

HLB operates a warehouse that stores raw materials and finished products. Lee, the warehouse officer, will conduct a physical count on inventory when new inventories are replenished in the warehouse and when products are taken out from the warehouse. A copy of the sales order generated in the UBS inventory system will be used as a reference to check inventory availability. All the information that is recorded by Lee from his physical count will be loaded into the UBS inventory system. A picking ticket is generated as a result of the sales order. The goods are then packed based on the sales order form, and Jessy will prepare the packing slip or shipping label once the goods are sealed and prepared for shipping.

Shipping Department

Jessy is responsible to prepare a bill of lading in the shipping department. She will ensure that the packed and shipped items match the items listed on the packing slip or shipping label. In order to provide goods shipped are sent to customers as per schedule, all goods loaded on the delivery truck will be shipped once Jessy confirms the bill of lading with the sales order form. Keith, the delivery truck driver, brings with him the shipping documents together with the goods delivered. Customers are required to signed the shipping documents as proof that goods are received.

Billing Department

The billing department started to prepare the sales invoice when Keith brings back the "proof of received" on the shipping documents. Siti matches the sales order form and shipping records to prepares the sales invoice. Siti will call the accounting department to notify them that sales invoice are generated and the accounting department starts to initiate the recording of sales transactions based on calls made by Siti.

Continued...

Accounting Department

Vicky, the account clerk keys in the sales amount based on the sales invoice information informed by Siti. Vicky matched the sales information with the sales order and records the accounts related to the sales transactions. The head of accounting department, Billy, does not perform regular and thorough reconciliations between recorded sales in the accounting system and accounts receivable balances.

The accountant will record each sales transaction in the sales journal and account receivable subsidiary ledger based on the sales invoice and sales order form details. Based on the company policy, the customer's monthly statement is prepared and sent only to customers with large account receivable balances at the end of the month.

Required

(a) Identify and explain any **FIVE (5)** internal control weaknesses in the company's sales processes. For each weakness, explain the potential risk in the company.

(20 marks)

(b) What is bill of lading?

(2 marks)

PART B

Melly and Joe are the auditors in charge of the audit of Uno Berhad, a public listed company. She is required to perform substantive tests to detect potential material misstatements in the financial statements of Uno Berhad. Among the substantive test they may conduct are as below:

No.	Substantive test
1.	Select a sample of sales transactions recorded in the sales journal , vouching of sales invoices back to customer orders and shipping documents.
2.	Test a sample of sales transactions at the end of the reporting period to ensure that they are properly recorded in the correct period.
3.	Review cash collections subsequent to the year-end to verify that they have been recorded in the accounts.

Continued...

Required

Identify the audit objective of each of the substantive testing above.

(Note: Use the table format below to write your answer)

No.	Audit Objective
1.	
2.	
3.	

(3 marks)

(Total: 25 marks)

QUESTION 2

PART A

Wacintosh Berhad (WB) manufactures a range of electronics products which are sold to local and international markets. The company's year end was 31 December 2022. You are appointed as the auditor to examine the company's purchasing account. You gathered information and documents from WB for the audit. During your preparation for the planning meeting with the finance director, the following matters in **Figure 1** have been highlighted as having low control risk:

Requisitioning

Receiving

Disbursement

Figure 1

Required

(a) Explain the internal control that is suitable to be implemented in each of the purchasing functions in **Figure (1)**.

(6 marks)

(b) In addition to the function listed in **Figure 1**, list **FOUR (4)** other functions that are available in the purchasing cycle.

(4 marks)

Continued...

(c) State the accounts affected by each of the functions in **Figure 1**.

(5 marks)

(d) Describe the documents involved based on each function in **Figure 1.**

(4 marks)

PART B

Your firm has recently been appointed as the external auditor of Extra Vaganza Berhad (EVB) for the year ending 31 December 2022. EVB is planning to improve their internal control in purchasing functions by making it compulsory for all purchase documents to be approved by the authorised personnel. As an audit senior, the engagement partner asked you to consider the creditor's account, which might contain fictitious purchases.

Required

(a) State the objective of internal control procedures conducted in the EVB.

(2 marks)

(b) Describe **TWO (2)** effects of fictitious purchases in the EVB records.

(4 marks)

(Total: 25 marks)

Continued...

QUESTION 3

In an external audit engagement of Alpha Manufacturing Berhad (AMB), Khai, the audit senior was assigned to audit the property, plant and equipment (PPE) accounts. **Table 1** shows the accounts which are related to the PPE account at AMB.

	Office Equipment (RM)	**Furniture and Fittings (RM)**	**Total (RM)**
Cost			
At 31 December 2021	46,737	12,315	59,052
Additions	5,499	-	5,499
Written off	(13,949)	-	(13,949)
At 31 December 2022	38,287	12,315	50,602
Accumulated depreciation	32,802	11,644	44,446
Net carrying amount:			
At 31 December 2022	5,485	671	6,156

Table 1

Khai has prepared notes drafting the test of control that he and his team will conduct to examine the property, plant and equipment (PPE) accounts which are presented in **Figure 2** below:

i. Questioning the method of record keeping.
ii. Examining proof of authorization and endorsement.
iii. Inquiring about established procedures for acquiring PPE and reviewing supporting documentation.
iv. Examining the evidence of internal verification of PPE amount.

Figure 2

Required

(a) Describe how Khai and his team can obtain an overall understanding of the internal control structure of PPE in AMB.

(2 marks)

(b) What is the name of the document AMB may use to record the details of property, plant and equipment owned by the company?

(1 mark)

Continued...

(c) State the objective of conducting test of control. (2 marks)

(d) Based on **Figure 2,** state the objective of internal control that Khai and his team intend to test.

(8 marks)

(Note: Use the table format below to write your answer)

Test of Control	Internal Control Objective
i.	
ii.	
iii.	
iv.	

(e) Suggest internal control procedures that AMB may apply to meet the internal control objectives you have answered in (a).

(8 marks)

(Note: Use the table format below to write your answer)

Test of Control	Internal Control Procedure
i.	
ii.	
iii.	
iv.	

(f) Describe **TWO (2)** audit procedures that should be included in the audit plan of Khai and his team based on the information in **Table 1.**

(4 marks)

(Total: 25 marks)

Continued...

QUESTION 4

PART A

Your firm is the external auditor of Cisco Berhad for the year ended 31 October 2022. Cisco's principal activity is the installation of electrical systems for customers in the retail, construction and industrial sectors in Melaka. Cisco secures its capital mainly from equity financing. All the shareholders in Cisco Berhad will be issued with share certificates as proof of ownership of shares in the company.

Required

(a) Define equity financing.

(2 marks)

(b) Explain **TWO (2)** types of transactions in equity financing.

(4 marks)

(c) State other capital acquisition technique firm can use other than equity financing.

(2 marks)

(d) What is the internal control procedures that Cisco Berhad should implement concerning the issuance of share certificate?

(1 mark)

(e) Briefly explain **TWO (2)** purpose of the internal control procedures you mentioned in (d).

(4 marks)

PART B

Your firm is the external auditor of Eurka Berhad Company (EBC), which sells building materials through 400 outlets in Malaysia. The company has recently implemented a new payroll software system to streamline their payroll processing. You have examined the internal control over its payroll and personnel cycle and encountered several weaknesses in the system's accuracy due to outdated and inconsistent employee information. You have written a draft of your findings in the **Figure 3** below:

Continued...

No	Internal Control
1.	The company's Human Resource (HR) department did not consistently approve the employee records when changes occurred, such as job title changes, salary adjustments, or changes in tax withholding information.
2.	The system does not have proper mechanisms to ensure that the employee data being used for payroll calculations is accurate and up-to-date.
3.	Data entry in time card were still performed manually, by the payroll supervisor.
4.	The payroll checks are signed by payroll supervisor, who is involved in payroll function and timekeeping function.

Figure 3

Required

(a) Describe the possible errors and fraud that could result from the weaknesses of internal control as described in **Figure 3**.

(Note: Use the table format below to write your answer)

No	Possible Errors and Fraud
1.	
2.	
3.	
4.	

(8 marks)

(b) State the internal control that should be implemented by EBC for each of the weaknesses in internal control listed in **Figure 3.**

(Note: Use the table format below to write your answer)

No	Internal Control
1.	
2.	
3.	
4.	

(4 marks)

(Total: 25 marks)

End of Paper